

# BANKING SUBCOMMITTEE MEETING

## NOVEMBER 8, 2017



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# Agenda

AGENDA

## Meeting of the Banking Subcommittee of the Cash Management Policy Board



### Meeting Agenda

- ▶ I. Introductions
- ▶ II. Approval of the Minutes
- ▶ III. Banking Structure Review Project Update
- ▶ IV. Collateralization of State Funds
- ▶ V. Merchant Services Implementation
- ▶ VI. Public Comment
- ▶ VII. Action Items
- ▶ VIII. Next Meeting
- ▶ IX. Adjournment



# Banking Structure Review Project

- **Section 1: Review of the State's Banking Relationships:** This section provides a high-level summary of the current service providers, number of accounts, relationships by State agencies, services used and fees paid.
- **Section 2: Strategic Organizational Recommendations:** This section identifies the strategic organizational issues identified by PFM.
- **Section 3: Structural & Rebidding Recommendations:** This section recommends changes to the structure of the State's banking relationships and a realignment of services across banking partners. This section also includes a framework for rebidding banking services.
- **Section 4: Operational Enhancement Recommendations:** This section provides an assessment of key cash management practices and includes operational enhancements that PFM recommends.
- **Section 5: Analysis of Current Fees:** PFM reviewed the fees charged by the State's current banking partners and compared the pricing to two databases of bank pricing. An estimate of potential fee savings is provided.
- **Section 6: Review of State Agencies:** This section summarizes the cash management practices of most, but not all, of the State agencies. Information about current use of services was an important input into PFM's Strategic Organizational and Operational Enhancement recommendations.



# Collateralization of State Funds

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- OST Memorandum
- Adjustment to CMPB Guidelines
- Implications for Banking Services RFPs
- Documentation of Internal Procedures
- PFM Independent Evaluation



# RECEIVERSHIP RISKS: NEED TO SECURE INTRADAY BALANCES?

- Large bank failures are rare (2 out of 523 total failures last decade).
  - WAMU
  - IndyMac
- 92 percent of failures in the past decade were resolved through “whole bank” purchase & assumption transactions. No losses or material delay for DDA customers.
- 8 percent of those cases were resolved through clean bank or deposit payoffs. Customers incurred losses and delays with respect to uninsured, uncollateralized DDA balances.
- With 1 or 2 exceptions in last 20 years, FDIC closed the bank after normal COB and calculated DDA balances using the bank’s normal cutoff rules and end-of-day balances.
- 1, maybe 2, midday failures due to fraud. FDIC sets own cutoff?



# PROS AND CONS OF RISK MITIGATION STRATEGIES

- **MMMF Sweeps**

- ❖ Same-day sweeps can fully mitigate end-of-day DDA credit risk
- ❖ Next-day sweeps do not mitigate end-of-day DDA credit risk; ignored under 2009 processing rule
- ❖ MMMF sweeps do not address intraday risk; all MMMF sweeps can be blocked in midday failure
- ❖ MMMF shares may be tied up in receivership

- **ZBA/Overdraft Privileges of Facility**

- ❖ Can in theory fully mitigate intraday and end-of-day balances; difficult or impossible to maintain at \$250k with prefunding, deposits, target balances
- ❖ Intraday balances exposed in midday failure (absent collateral);
- ❖ End-of-day balances exposed (absent sweep or collateral)

- **Pledged Securities**

- ❖ Can fully mitigate intraday and end-of-day balances; very labor intensive to maintain appropriate levels for intraday balances
- ❖ 1 to 2 week delay under expedited “public unit” secured claim process

- **LOC/Surety**

- ❖ Can mitigate intraday and end-of-day balances
- ❖ Minimal delay
- ❖ Issuer credit risk



## EXISTING STATUTORY AND REGULATORY REQUIREMENTS:

29 Del. C. § 2716(a)(1): DE public deposits must be “continuously and fully secured” by U.S. treasury securities or “other suitable obligations.”

2016 Guidelines: “highest daily intraday balances” held or expected to be held.

## POTENTIAL GUIDELINE CHANGES:

- Set collateral level based on end-of-day or average monthly balances?
- Use of independent custodian banks
- Use pricing service to value collateral
- Overcollateralization in the range of one to two percent



# Merchant Services Implementation

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- New Merchant Services Program Manager
- PFM Recommendations
- PCI Compliance
- EPX System Failure
- Onboarding of New Merchants
- EPX - Govolution conversion
- BAMS file testing
- Conversion Schedule



# New Board/Subcommittee Website

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## Meetings Listing

 All Meetings >	 Date - Time ▾	Meeting Title 	Minutes	Meeting Type ▾
 Upcoming	11/08/2017 - 10:00 AM	<a href="#">Banking Subcommittee of the Cash Man...</a>		Cash Management Policy Board
 Prior	11/01/2017 - 10:00 AM	<a href="#">Investment Subcommittee of the Cash...</a>		Cash Management Policy Board

